

**HESPERIA COMMUNITY LIBRARY**

**FINANCIAL STATEMENTS**

**JUNE 30, 2004**

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

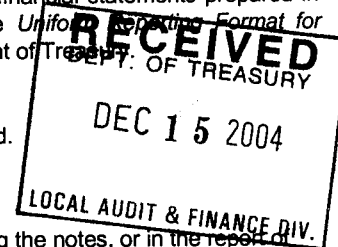
Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Hesperia Community Library</b>	County <b>Newaygo</b>
Audit Date <b>6/30/04</b>	Opinion Date <b>11/16/04</b>	Date Accountant Report Submitted to State: <b>12/14/04</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report comments and recommendations



You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Hendon &amp; Slate PC</b>			
Street Address <b>711 West Main Street</b>	City <b>Fremont</b>	State <b>MI</b>	ZIP <b>49412</b>
Accountant Signature <i>Jodi DeKruiper, CPA</i>		Date <b>12/14/04</b>	

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## **HESPERIA COMMUNITY LIBRARY**

### **Library Board**

<u>Appointed Official</u>	<u>Position</u>
Dorothy Backus	President
Mary Sturtevant	Vice- President
Lynn Rumsey	Treasurer
Sara Kraley	Secretary
Scott DeBrot	Trustee
Sandy Sidock	Trustee
Rebecca Gleason	Trustee
Starr Gleason	Trustee

### Administration

Elizabeth Nordin	Library Director
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# H&S Companies



**Hendon & Slate, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS  
BUSINESS CONSULTANTS



Library Board  
Hesperia Community Library  
Hesperia, MI 49421

## Independent Auditor's Report

We have audited the accompanying basic financial statements of the Hesperia Community Library as of and for the year ended June 30, 2004 as listed in the accompanying table of contents. These financial statements are the responsibility of the Hesperia Community Library Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Hesperia Community Library as of June 30, 2004, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information listed in the table of contents as supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements of Hesperia Community Library. This information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The management discussion and analysis included in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Hesperia Community Library. We did not examine this data and, accordingly, do not express an opinion thereon.

As discussed in Note A, the Library adopted Governmental Accounting Standards Board Statement Number 34 during the current year. As a result, these financial statements present entirely new financial information. Governmental activities report information by individually significant fund, as well as in total on the full accrual basis of accounting.

*Hendon & Slate, P.C.*

Hendon & Slate, P.C.  
Certified Public Accountants  
November 16, 2004

**Fremont**  
711 West Main Street  
Fremont, MI 49412  
Phone (231) 924-6890  
Fax (231) 924-4088  
Toll Free (800) 924-6891

**Muskegon**  
950 W. Norton Ave.  
Suite 500  
Muskegon, MI 49441  
Phone (231) 733-0076  
Fax (231) 733-0185

**Hart**  
2332 North Comfort Drive  
Hart, MI 49420  
Phone (231) 873-5611  
Fax (231) 873-7033

**Whitehall**  
116 W. Colby, Suite B  
Century Building  
Whitehall, MI 49461  
Phone (231) 893-6772  
Fax (231) 893-6773

[www.hscompanies.com](http://www.hscompanies.com)



**HESPERIA COMMUNITY LIBRARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE YEAR ENDED JUNE 30, 2004**

**Discussion of the Basic Financial Statements**

This annual report consists of:

- Management's Discussion and Analysis
- Required Supplementary Information
- Balance Sheet/Statement of Assets
- Notes to the Financial Statements

The library's financial records were presented to Hendon & Slate for evaluation in order to get an independent, professional opinion, without prejudice, regarding the library administration's management of assets owned by the Hesperia Community Library District.

All records maintained by the Treasurer and Library Director that were used to record transactions, monitor expenditures, revenues, and fixed assets were presented for assessment and evaluation. The auditor was charged with determining correctness of record keeping, accuracy of accounting, and scrutinizing for improper or fraudulent activities.

The Treasurer, elected by the Board of Trustees, is responsible for accounting procedures and transactions. The Library Director maintains a parallel record to verify and confirm financial transactions. The Treasurer's ledger and Library Director's record are balanced at the end of each day in which transactions occur.

**Condensed Financial Information**

The table below contains key financial information in a condensed format (in future years, when prior year information is available, a comparative analysis of government-wide data will be presented):

\$ 576,537	Current Assets (Cash, Accounts Receivable)
<u>\$1,538,004</u>	Capital Assets (Land, Other Capital Assets, Net of Accumulated Depreciation)

**\$2,114,541 Total Assets**

\$1,435,000	Long-term Debt
<u>\$ 33,723</u>	Other Liabilities

**\$1,468,723 Total Liabilities**

Net Assets:

\$ 103,004	Invested in Capital Assets, Net of Related Debt
\$ 38,663	Restricted for Debt Service
\$ 106,512	Restricted for Capital Project
<u>\$ 397,639</u>	Unrestricted

**\$ 645,818 Total Net Assets**

Revenue:

\$ 176,588	Property Taxes
\$ 138,501	Grants
\$ 36,239	Penal Fines
\$ 4,114	Interest
\$ 1,722	Patron Fees
\$ 5,700	Donation-Memorials
\$ 3,880	Other
<u>\$ 6,124</u>	State Aid

**\$ 372,868 Total Revenue**

Management's Discussion and Analysis (Continued)  
For the Year Ended June 30, 2004

<u>Expenses:</u>	
\$ 87,015	Personnel Services
\$ 17,069	Acquisitions
\$ 15,742	Capital Outlay
\$ 4,608	Consumables & Supplies
\$ 43,397	Services & Charges
\$ 12,848	Miscellaneous
\$ 91,377	Depreciation
<u>\$ 66,251</u>	Debt Retirement
\$ 338,307	Total Expenditures
\$ 34,561	Change in Net Assets

**Library's Overall Financial Position**

The Library's net assets increased by \$34,561. This was primarily due to the purchase of adjoining property for the purpose of expanding the library's parking lot. The property was purchased with a grant from the Hesperia Community Library Building Fund at The Fremont Area Community Foundation.

The Board of Trustee's has designated unrestricted funds for the purpose of repair and maintenance of the Library facility. This was necessary due to a lack of sources for operating revenue to provide for the long term maintenance needs of the building. The Trustee's are considering investment options for these funds to produce the most revenue within the boundaries of State laws and the Board's Investment Policy.

The current operating millage expires at the end of 2005. In 2006, the Board of Trustees will consider an election proposal to address the operating needs of the library.

Library management has been able to operate the library with 52 hours of service per week with support from The Fremont Area Community Foundation. This support for operating expenditures ended in early 2004 and will not be available in 2004-2005. The 2004-2005 Operating Budget will not be able to support a 52 hour service week and the Trustees will need to take action regarding this situation.

All and all, the 2003-2004 fiscal year was financially sound due to support from The Fremont Area Community Foundation.

**The Library's Fund**

The Library Board has created separate funds in order to help manage money and maintain a clear picture of the discretionary spending. Of concern also, is the long term maintenance of the facility and its systems (HVAC, security, lighting, electrical, etc.). The topic of this report item is the Operating (General) Fund which accounts for the day-to-day costs of providing library services to the residents of the four townships that comprise the library district. The 2003-2004 fiscal year ended with a surplus of \$2,000 in the Operating Budget. The surplus was transferred to the Repair and Maintenance Fund, so that each fiscal year can be assessed based on revenues and expenditures for the year. Restricted monies are also tracked in a separate fund so that management can more easily evaluate the financial situation. This helps management evaluate the financial needs each year.

The library services were maintained this year with local income sources and the final expenditures of an operating grant from The Fremont Area Community Foundation that was carried over from the previous fiscal year.

The Library levied .7394 mill. This was reduced from .75 by the Headlee amendment.

### **Significant Budget Variations**

The Budgetary Comparison Schedule indicates a serious over expenditure in the Capital Outlay. (See Note G). The Library approves the budget for each project as restricted monies and does not amend the operating budget whenever a project is funded. Since there is considerable grant activity that is carried over and added each fiscal year, it is confusing and difficult to have a clear picture of the Library's discretionary operating budget when these expenditures and revenues are reported together. So while it appears that Capital Outlay was not appropriately budgeted, the restricted fund does account for all expenditures and revenues. The discrepancy resulted when the funds carried over from the previous fiscal year were not included in the 2003-2004 Operating Budget.

### **Capital Assets and Debt Activity**

At the end of the fiscal year, the Library's fixed assets totaled \$1,538,004. The Library added \$30,161 in new collection materials. These were purchased primarily from the Capital Project Fund and grant monies.

The purchase of adjoining property for the purpose of expanding the library parking area was a significant addition. The house was demolished and property cleared for the construction of 26 additional parking spaces at a cost of \$28,000.

The 2003-2004 fiscal year was the third year of a 20 year bond repayment. The library makes two bond payments a year in May and November. 0.9770 mill was levied to repay the bonds and interest.

### **Discussion of Currently Known Facts, Decisions, and Conditions**

The Treasurer has received permission to close the Debt Service Account at Fifth Third Bank in Fremont and open an account at Shelby State Bank for the same purpose. This is being done for timely and convenient deposit of tax payments received from Townships.

The Library faces a significant challenge in providing convenient and comprehensive service hours for the community. The library service hours were expanded in 1999, when The Fremont Area Community Foundation supported the library board's desire to have the library open an additional 16 hours a week in order to make service more readily available. This support has ended and the current funds raised from taxes will not support the additional hours of service. In addition, penal fines have been declining each year.

The Library Board has the challenge of providing the community with an expanding demand and need for library services with no alternative but to increase taxes. The electors would have to approve such an increase. Given the economic conditions, it will require significant commitment and energy to inform the electors of the ramifications of not increasing tax support.



**HESPERIA COMMUNITY LIBRARY**  
Governmental Funds Balance Sheet/Statement of Net Assets  
June 30, 2004

	<u>General Fund</u>	<u>Capital Projects Funds</u>	<u>Debt Service Fund</u>	<u>Total</u>	<u>Adjustments<sup>A</sup></u>	<u>Statement of Activities</u>
Assets and Other Debits						
Cash	\$ 384,161	\$ 120,275	\$ 35,862	\$ 540,298	\$ -	\$ 540,298
Accounts Receivable	36,239	-	-	36,239	-	36,239
Due from Other Funds	-	-	2,801	2,801	(2,801)	-
Land	-	-	-	-	120,000	120,000
Other Capital Assets, Net of Accumulated Depreciation	-	-	-	-	1,418,004	1,418,004
<b>Total Assets</b>	<b><u>\$ 420,400</u></b>	<b><u>\$ 120,275</u></b>	<b><u>\$ 38,663</u></b>	<b><u>\$ 579,338</u></b>	<b><u>\$ 1,535,203</u></b>	<b><u>\$ 2,114,541</u></b>
Liabilities, Fund Equity and Other Credits						
Liabilities						
Accounts Payable & Accrued Liabilities	\$ 3,661	\$ 13,763	\$ -	\$ 17,424	\$ -	\$ 17,424
Due to Other Funds	2,801	-	-	2,801	(2,801)	-
Deferred Revenue	16,299	-	-	16,299	-	16,299
Long-Term Liabilities						
Bonds Payable, Due within One Year	-	-	-	-	45,000	45,000
Bonds Payable, Due After One Year	-	-	-	-	1,390,000	1,390,000
<b>Total Liabilities</b>	<b>22,761</b>	<b>13,763</b>	<b>-</b>	<b>36,524</b>	<b>1,432,199</b>	<b>1,468,723</b>
Fund Balances/Net Assets						
Fund Balances						
Unreserved	397,639	-	-	397,639	(397,639)	
Unreserved, reported in Debt Service	-	-	38,663	38,663	(38,663)	
Unreserved, reported in Capital Projects	-	106,512	-	106,512	(106,512)	
<b>Total Fund Balances</b>	<b><u>397,639</u></b>	<b><u>106,512</u></b>	<b><u>38,663</u></b>	<b><u>542,814</u></b>	<b><u>(542,814)</u></b>	
<b>Total Liabilities and Fund balances</b>	<b><u>\$ 420,400</u></b>	<b><u>\$ 120,275</u></b>	<b><u>\$ 38,663</u></b>	<b><u>\$ 579,338</u></b>	<b>(579,338)</b>	
Net Assets:						
Invested in Capital Assets, Net of Related Debt					103,004	103,004
Restricted for Debt Service					38,663	38,663
Restricted for Capital Projects					106,512	106,512
Unrestricted					397,639	397,639
<b>Total Net Assets</b>					<b><u>\$ 645,818</u></b>	<b><u>\$ 645,818</u></b>

<sup>A</sup> Notes to the Financial Statements provide the details for main components of the adjustments.

The Notes to the Financial Statements are an integral part of this statement.

**HESPERIA COMMUNITY LIBRARY**  
Statement of Governmental Revenue, Expenditures, and  
Changes in Fund Balance/Statement of Activities  
For the Year Ended June 30, 2004

	General <u>Fund</u>	Capital Project <u>Fund</u>	Debt Service <u>Fund</u>	<u>Total</u>	Adjustments (Note M) <sup>A</sup>	Statement of <u>Activities</u>
Revenue						
Local Sources						
Taxes	\$ 76,247	\$ -	\$ 100,341	\$ 176,588	\$ -	\$ 176,588
Grants	138,501	-	-	138,501	-	138,501
Penal Fines	36,239	-	-	36,239	-	36,239
Interest	2,291	1,685	138	4,114	-	4,114
Patron Fees	1,722	-	-	1,722	-	1,722
Donations - Memorials	5,700	-	-	5,700	-	5,700
Other	<u>3,680</u>	<u>200</u>	<u>-</u>	<u>3,880</u>	<u>-</u>	<u>3,880</u>
Total Local Sources	264,380	1,885	100,479	366,744	-	366,744
State Sources - State Aid	<u>6,124</u>	<u>-</u>	<u>-</u>	<u>6,124</u>	<u>-</u>	<u>6,124</u>
Total Revenues	270,504	1,885	100,479	372,868	-	372,868
Expenditures						
Personnel Services	87,015	-	-	87,015	-	87,015
Acquisitions	-	17,069	-	17,069	-	17,069
Capital Outlay	133,594	104,073	-	237,667	(221,925)	15,742
Consumables & Supplies	4,608	-	-	4,608	-	4,608
Services and Charges	37,629	5,768	-	43,397	-	43,397
Miscellaneous	12,289	559	-	12,848	-	12,848
Depreciation	-	-	-	-	91,377	91,377
Debt Retirement	<u>-</u>	<u>-</u>	<u>101,251</u>	<u>101,251</u>	<u>(35,000)</u>	<u>66,251</u>
Total Expenditures	<u>275,135</u>	<u>127,469</u>	<u>101,251</u>	<u>503,855</u>	<u>(165,548)</u>	<u>338,307</u>
Excess Revenue Over Expenditures/ Change in Net Assets	(4,631)	(125,584)	(772)	(130,987)	165,548	34,561
Fund Balance/Net Assets - July 1	<u>402,270</u>	<u>232,096</u>	<u>39,435</u>	<u>673,801</u>	<u>(62,544)</u>	<u>611,257</u>
Fund Balance/Net Assets - June 30	<u>\$ 397,639</u>	<u>\$ 106,512</u>	<u>\$ 38,663</u>	<u>\$ 542,814</u>	<u>\$ 103,004</u>	<u>\$ 645,818</u>

<sup>A</sup> Note M would provide the details for main components of the adjustments.

The Notes to the Financial Statements are an integral part of this statement.

## HESPERIA COMMUNITY LIBRARY

Notes to the Financial Statements  
June 30, 2004

### NOTE A NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Hesperia Community Library (the "Library") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Library's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

#### 1. REPORTING ENTITY

The purpose of the Hesperia Community Library is to provide library services to Newfield Township, Greenwood Township, Denver Township and the part of Beaver Township that is in the Hesperia Community School District. The Library's Board consists of eight appointed board members.

The financial statements include all activities of the Library. There are no governmental departments, agencies, institutions, commissions, public authorities or organizations within the Library, which its appointed officials may exercise oversight responsibility, that have been excluded. Oversight responsibility is considered to be derived from the Library's power and includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Also, using the same criteria above, the Library's financial statements include the accounts of all Library operations.

#### 2. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major and non-major funds).

##### **Government-Wide Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

## Notes to the Financial Statements (Continued)

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The effect of interfund activity has been eliminated from the government-wide financial statements. Also, there are no fiduciary funds included in the government-wide statements.

### **Fund Financial Statements**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when the payment is due.

Property taxes, State Shared Revenue, Penal Fines and interest are considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Deferred revenues arise when resources are received by the Library before it has met all of the eligibility requirements imposed by the grantor or provider.

The Library reports the following major governmental funds:

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from intergovernmental revenues.

Debt Service Fund - Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal, interest and related costs.

Capital Project Funds - Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities which are not financed by proprietary or trust funds.

### 3. CAPITAL ASSETS

Capital assets are defined by the Library as assets with an initial cost more than \$1.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life on an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and Improvements	10-50 Years
Furniture and Equipment	5-20 Years
Library Books and Materials	3-10 Years

### 4. PROPERTY TAXES

Property taxes are levied on December 1<sup>st</sup> based on the taxable valuation of the property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year. The Townships and Village bill and collect the property taxes.

5. CASH AND CASH EQUIVALENTS

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments, if any, with original maturities of three months or less from date of acquisition.

6. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

7. PREPAID EXPENSES

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items.

8. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

9. FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to change.

NOTE B DEPOSITS

Legal or Contractual Provisions for Deposits and Investments. The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended through December 31, 1997, states the Library by resolution, may authorize the Treasurer to invest surplus funds in one or more of the following:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptances of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 81a-1 to 801-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:

- i The purchase of securities on a when-issued or delayed delivery basis.
- ii The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
- iii The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperations Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

The Library funds are held at Shelby State Bank and Fifth Third Bank and are carried at cost and consisted of the following:

	<u>Carrying Value</u>	<u>Market Value</u>
Cash on Hand	\$ 50	\$ -
Shelby State Bank - Certificate of Deposit	13,500	13,500
Shelby State Bank - Money Market - General	275,184	276,159
Fifth Third Bank - Money Market - General	95,405	95,405
Fifth Third Bank - Money Market - Debt Service	35,862	35,862
Fifth Third Bank - Money Market - Capital Project	<u>120,275</u>	<u>121,791</u>
Total Deposits	<u>\$ 540,276</u>	<u>\$ 542,717</u>
FDIC Insured	\$ -	\$ 13,500
Uninsured	50	-
Money Market Funds	540,226	529,217

Investments are normally categorized to give an indication of the level of risk assumed by the Library; however, money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment authority noted above.

#### NOTE C DUE FROM OTHER GOVERNMENTAL UNITS

Receivables at June 30, 2004 consisted of the following:

Newaygo County - Penal Fines	\$ 11,126
Oceana County - Penal Fines	<u>25,113</u>
Total Due from other Governmental Units	<u>\$ 36,239</u>

#### Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Grants	<u>\$ -</u>	<u>\$ 16,299</u>

## NOTE D CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets for governmental activities is as follows:

	Balance 7/01/03	Additions	Deductions	Balance 6/30/04
Assets not being depreciated				
Land	\$ -	\$ 120,000	\$ -	\$ 120,000
Other Capital Assets:				
Building & Improvements	1,213,898	89,884	-	1,303,782
Furniture & Equipment	198,515	4,705	-	203,220
Library Collection	487,965	30,161	-	518,126
Computers	38,133	42	-	38,175
Total	1,938,511	124,792	-	2,063,303
Accumulated Depreciation	553,922	91,377	-	645,299
Net Book value	<u>\$ 1,384,589</u>	<u>\$ 153,415</u>	<u>\$ -</u>	<u>\$ 1,538,004</u>

## NOTE E CHANGES IN LONG-TERM DEBT

Outstanding Debt

A summary of debt outstanding of The Library for governmental activities at June 30, 2004 is as follows:

	Balance July 1, 2003	(Net) Borrowings (Payments)	Balance June 30, 2004	Amounts Due within One Year
Bonds Payable - due in annual installments of \$30,000 to \$120,000 through May 2021; interest from 3.0% to 4.75%.	\$ 1,470,000	\$ (35,000)	\$ 1,435,000	\$ 45,000

Debt Service Requirements

The annual requirements to amortize all debt outstanding at June 30, 2004 including both principal and interest are as follows:

	Total	Principal	Interest
2005	\$ 109,505	\$ 77,252	\$ 32,253
2006	113,020	81,510	31,510
2007	116,245	85,623	30,622
2008	119,210	89,605	29,605
2009	121,870	93,435	28,435
2010 - 2014	638,670	519,335	119,335
2015 - 2019	658,000	591,500	66,500
	<u>\$ 1,876,520</u>	<u>\$ 1,538,260</u>	<u>\$ 338,260</u>

Interest

Interest expense of The Library for the year ended June 30, 2004 approximated \$66,000.

**NOTE F RISK MANAGEMENT**

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, as well as employee injuries. The Library maintains commercial insurance coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Library. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

**NOTE G STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

The General Fund is under formal budgetary control. The budget shown in the financial statements for this fund was prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consists only of those amounts contained in the formal budget approved and amended by the Board.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2004, the Library did incur material overexpenditures in the following funds:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Capital Outlay	\$ 23,070	\$ 133,594	\$ (110,524)

In the body of the financial statements, the Library's actual expenditures and budgeted expenditures for the budgetary fund has been shown on a functional basis. The approved budgets for this budgetary fund were adopted at the line item level.

**NOTE H RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Total fund balance and the net change in fund balance of the Library's governmental fund differs from net assets and statement of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

<b>Total Fund Balance - Modified Accrual Basis</b>	<b>\$ 542,814</b>
Amounts reported in the statement of net assets are different because:	
Capital Assets are not financial resources, and are not reported in the funds	1,538,004
Long-term liabilities are not due and payable in the current period and are not reported in the funds	<u>(1,435,000)</u>
<b>Net Assets of General Fund - Full Accrual Basis</b>	<b><u>\$ 645,818</u></b>



**Net change in Fund Balances - Modified Accrual Basis** **\$ (130,987)**

Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Library books and materials	30,161
Capital outlay	191,764
Depreciation	(91,377)

Repayments of bond principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)

35,000

**Change in Net assets of General Fund - Full Accrual Basis** **\$ 34,561**

# HESPERIA COMMUNITY LIBRARY

## Required Supplementary Information Budgetary Comparison Schedule - General Fund For the Year Ended June 30, 2004

	Originally Adopted <u>Budget</u>	Final Amended <u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable)
Revenues				
Local Sources				
Taxes	\$ 76,000	\$ 76,000	\$ 76,247	\$ 1,247
Grants	52,978	52,978	138,501	85,523
Penal Fines	40,000	40,000	36,239	(3,761)
Interest	5,000	5,000	2,291	(2,709)
Patron Fees	2,000	2,000	1,722	(278)
Donations - Memorials	-	-	5,700	5,700
Other	-	-	3,680	3,680
Total Local Sources	175,978	175,978	264,380	88,402
State Sources - State Aid	<u>5,000</u>	<u>5,000</u>	<u>6,124</u>	<u>1,124</u>
Total Revenues	180,978	180,978	270,504	89,526
Expenditures				
Personnel Services	89,242	87,242	87,015	227
Capital Outlay	42,570	23,070	133,594	(110,524)
Consumable Supplies	400	5,400	4,608	792
Services and Charges	24,243	51,243	37,629	13,614
Miscellaneous	<u>24,523</u>	<u>14,023</u>	<u>12,289</u>	<u>1,734</u>
Total Expenditures	<u>180,978</u>	<u>180,978</u>	<u>275,135</u>	<u>(94,157)</u>
Excess Revenues Over (Under) Expenditures	-	-	(4,631)	(4,631)
Fund Balance - July 1	<u>337,460</u>	<u>337,460</u>	<u>402,270</u>	<u>64,810</u>
Fund Balance - June 30	<u>\$ 337,460</u>	<u>\$ 337,460</u>	<u>\$ 397,639</u>	<u>\$ 60,179</u>

# HESPERIA COMMUNITY LIBRARY

## Required Supplementary Information Budgetary Comparison Schedule - Capital Projects Fund For the Year Ended June 30, 2004

	Originally Adopted <u>Budget</u>	Final Amended <u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable)
Revenues				
Local Sources				
Penal Fines	\$ 1,500	\$ 1,500	\$ 1,685	\$ 185
Other	<u>-</u>	<u>-</u>	<u>200</u>	<u>200</u>
Total Revenues	1,500	1,500	1,885	385
Expenditures				
Acquisitions	39,835	39,835	17,069	22,766
Capital Outlay	180,139	180,139	104,073	76,066
Services and Charges	7,000	7,000	5,768	1,232
Miscellaneous	<u>10,000</u>	<u>10,000</u>	<u>559</u>	<u>9,441</u>
Total Expenditures	<u>236,974</u>	<u>236,974</u>	<u>127,469</u>	<u>109,505</u>
Excess Revenue Over (Under) Expenditures	(235,474)	(235,474)	(125,584)	109,890
Fund Balance - July 1	<u>235,474</u>	<u>235,474</u>	<u>232,096</u>	<u>(3,378)</u>
Fund Balance - June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 106,512</u>	<u>\$ 106,512</u>

# HESPERIA COMMUNITY LIBRARY

## Required Supplementary Information Budgetary Comparison Schedule – Debt Service Fund For the Year Ended June 30, 2004

	Originally Adopted <u>Budget</u>	Final Amended <u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable)
Revenues				
Local Sources				
Taxes	\$ 100,630	\$ 100,630	\$ 100,341	\$ (289)
Interest	<u>-</u>	<u>-</u>	<u>138</u>	<u>138</u>
Total Local Sources	<u>100,630</u>	<u>100,630</u>	<u>100,479</u>	<u>(151)</u>
Total Revenues	100,630	100,630	100,479	(151)
Expenditures				
Debt Retirement	<u>100,630</u>	<u>100,630</u>	<u>101,252</u>	<u>(622)</u>
Total Expenditures	<u>100,630</u>	<u>100,630</u>	<u>101,252</u>	<u>(622)</u>
Excess Revenues Over (Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	(773)	<u>\$ (773)</u>
Fund Balance - July 1			<u>39,435</u>	
Fund Balance - June 30			<u>\$ 38,662</u>	

# HS & Companies



**Hendon & Slate, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS  
BUSINESS CONSULTANTS



December 14, 2004

Library Board  
Hesperia Community Library  
Hesperia, MI 49421

Dear Board Members:

In connection with our recent examination of the financial statements of the Hesperia Community Library for the year ended June 30, 2004, we offer the following comments and recommendations.

Books and Records - The Library's books and records were, as always, maintained in excellent condition. Your officials should again be commended.

Budgeting - Once more we noted that the Board does not include all Grant expenditures in the budget. As a governmental unit you are required to adopt a budget to reflect both income and expenditures as well as any carry-over from the prior year (fund balance). We recommend that the board adopt a fiscal year budget which reflects grants and operations expected for the fiscal year. As grants are approved and received during the year, the fiscal year budget should be amended to reflect the portion of the grant which is expected to be received and spent during that year.

Wages and Contracted Services - We commend the administration for implementing last year's recommendation regarding posting contracted services in a different account from salaries and wages.

Fixed Assets - We were again glad to note that your staff has taken the time to accurately compile a list of assets. With the new building construction, as well as the new requirements from GASB 34, it is important to have a good inventory of items for internal control and insurance purposes. In relation to the fixed asset inventory, we also recommend that the Library adopt a capitalization policy. Your capitalization policy should identify the minimum dollar value of fixed assets which should be accounted for and inventoried for financial statement reporting purposes. For example, as a unit you could identify amounts below \$1,000 are not going to be considered for the fixed asset inventory. Exceptions to your capitalization policy can be made for items such as book collections. We believe this would help to make the inventory tracking a little less complicated.

Also, related to the tracking of fixed assets, we have assisted the Library in calculating the depreciation which is reported in the financial statements. We are providing a worksheet to assist the Library to continue tracking this cost. We recommend that this worksheet be up-dated for new assets and deleted assets annually and provided at the time of the audit.

**Fremont**

711 West Main Street  
Fremont, MI 49412  
Phone (231) 924-6890  
Fax (231) 924-4088  
Toll Free (800) 924-6891

**Muskegon**

950 W. Norton Ave.  
Suite 500  
Muskegon, MI 49441  
Phone (231) 733-0076  
Fax (231) 733-0185

**Hart**

2332 North Comfort Drive  
Hart, MI 49420  
Phone (231) 873-5611  
Fax (231) 873-7033

**Whitehall**

116 W. Colby, Suite B  
Century Building  
Whitehall, MI 49461  
Phone (231) 893-6772  
Fax (231) 893-6773

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GASB 34 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments

The year has finally arrived, the financial statements are now being reported using the changes required under GASB 34. As you can see from the report, the biggest change for your organization has been the lay-out of the financial statements and the recording of depreciation against operating income. The Management's Discussion and Analysis (MD&A) is also included in the financial statements. This is a valuable tool for informing the public of your current status and your future goals. In future years, this information will be even more useful as comparisons can aid in the providing of this information.

Finally, we were impressed by the condition of your records, willingness to implement recommended changes and the courtesy extended to us during the course of the audit. We will be happy to assist with any of our current recommendations and we are available throughout the year to answer any questions.

Respectfully submitted,

A handwritten signature in cursive script that reads "Jodi DeKuiper, CPA". The signature is written in dark ink and is positioned above the printed name.

Jodi DeKuiper, CPA  
Hendon & Slate, P.C.